

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Operation Samahan, Inc. ("OS") 2743 Highland Avenue National City, California San Diego County</p>	<p>Amount Requested: \$250,000 Requested Loan Term: 10 years Date Requested: May 30, 2002 Resolution Number: HII-122</p>
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Project Sites: 2743 Highland Avenue, National City, California
Facility Type: Community Clinic

Use of Loan Proceeds: Loan proceeds will be used to renovate an existing building located in National City and for equipment. In addition, OS seeks to refinance an existing mortgage loan secured by this facility, which has a balloon payment due in June 2002. Annual savings are estimated to be approximately \$8,400 due to the lower HELP II interest rate (8.65% vs. 3.0%).

Type of Issue: HELP II Loan
Prior HELP II Borrower: No.

Financial Overview: OS' financial status continues to improve, and features a strong demand for its services. OS has significant financial resources and solid liquidity.

Sources of Revenue: (FYE 6-30-01)	<u>Amount</u>	<u>Percent</u>
Third party billing	\$1,042,476	59.2%
Grants and contracts	340,678	19.3%
Patient medical fees	289,576	16.5%
Other	<u>87,418</u>	<u>5.0%</u>
Total operating revenue	<u>\$1,760,148</u>	<u>100.0%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$250,000	Renovation	\$200,000
National City Grant	100,000*	Refinance existing loan	135,800
Borrower's Funds	18,425	Purchase Equipment	27,500
		Financing Costs	<u>5,125</u>
Total Uses	<u>\$368,425</u>	Total Sources	\$368,425

*Grant approved, but not yet received per OS management

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$250,000 for a term not to exceed 10 years for the Operation Samahan, Inc., subject to a final appraised value on the National City property satisfactory to the Authority, receipt of grant from National City, and the standard HELP II loan provisions.

STAFF SUMMARY AND RECOMMENDATION

Operation Samahan, Inc.

May 30, 2002

Resolution Number: HII-122

I. PURPOSE OF FINANCING: OS proposes to expand services by renovating its existing facility in National City. This expansion will provide additional capacity to meet the demand for its services. In addition, OS proposes to refinance an existing mortgage with a balloon payment due in June 2002.

OS applied for a grant through the Cedillo-Alarcón Investment Act of 2000 but was deemed ineligible, since OS did not file its Annual Utilization Statistics data with the Office of Statewide Health Planning and Development.

Renovation of existing facility in National City\$200,000

OS owns and occupies a 3,500 square foot building in National City. Loan proceeds will be used to renovate and expand the facility by an additional 1,000 square feet. This space will be used to add office space, exam rooms, and expand the reception area. The renovation project began in April 2002 and it is anticipated that the project will be completed in July 2002.

Refinance existing loan135,800

In June 1992, OS refinanced the mortgage on its National City facility with an adjustable rate loan. The terms call for principal and interest to be amortized over 30 years, with a balloon payment due in June 2002. OS proposes to use the proceeds of the HELP II loan to refinance the existing loan. The current interest rate on the loan to be refinanced is 8.65% with the estimated loan balance of \$135,800. OS is in the process of having the property appraised. According to management, the estimated “as-is” value of the property is \$300,000 and the “as improved” value of at least \$400,000, leading to a total loan to value ratio of 63%. The appraised value on the property must be satisfactory to the Authority’s policies with a loan to value ratio not to exceed 95%.

Purchase equipment27,500

OS plans to purchase a variety of medical and office equipment that includes exam tables, an EKG machine, an Ultrasound machine, and utility carts.

<i>Financing Costs</i>	<u>5,125</u>
Authority Fee	3,125
Title/escrow fees	2,000
 <i>Total</i>	 <u>\$368,425</u>

Financing structure:

- 10-year fully amortized loan term.
- 120 equal monthly payments of approximately \$2,414 (total annual payments of \$28,968).
- Total interest payments of approximately \$39,682.
- First position lien on the property located at 2743 Highland Avenue, National City, California.
- Corporate gross revenue pledge.
- Maximum loan to value ratio of 95%.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Operation Samahan, Inc. STATEMENT OF ACTIVITIES

	<u>Nine Month</u>	<u>For the Year Ended June 30</u>		
	<u>March 2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)			
<u>Unrestricted Revenue</u>				
Contributions	\$ 7,324	\$ 10,821	\$ 9,149	\$ 10,997
Fundraising	2,061	15,141	17,120	4,086
Interest	9,508	30,793	10,285	620
Total Unrestricted Revenue	18,893	56,755	36,554	15,703
Net Assets Released From Restrictions	1,558,398	1,703,393	1,586,601	1,520,280
Total	1,577,291	1,760,148	1,623,155	1,535,983
<u>Expenses</u>				
Salaries	995,174	1,094,447	810,407	848,843
Employee benefits	160,091	171,876	10,893	121,890
Consulting	72,414	142,115	137,836	62,289
Rent	53,431	42,130	35,240	35,569
Clinic supplies	35,587	46,880	47,662	56,348
Outside laboratory services	27,599	39,941	36,217	52,916
Depreciation	26,910	36,881	37,749	24,319
Insurance	25,177	37,319	32,711	27,133
Interest expense	19,671	16,130	16,840	17,705
Equipment costs	18,310	9,565	13,995	13,429
Office supplies	17,967	26,577	32,030	5,543
Telephone	14,245	16,313	16,455	16,301
Computer accessories	13,385	9,128	10,917	50,809
Utilities	10,518	11,204	9,739	9,504
Janitorial	10,175	3,281	6,269	-
Other	97,760	95,951	293,740	109,028
Total expenses	1,598,414	1,799,738	1,548,700	1,451,626
Change in Unrestricted Net Assets	(21,123)	(39,590)	74,455	84,357
Temporarily Restricted Net Assets				
Revenue				
Grants and Contracts	248,582	389,996	384,776	143,146
Third Party Billings	1,120,598	1,188,481	1,061,544	1,107,755
Patient Medical Fees	207,366	328,703	234,296	205,762
Other Income and Interest	32,831	36,150	165,405	123,229
Total Revenue	1,609,377	1,943,330	1,846,021	1,579,892
Net Assets Released From Restrictions	1,558,398	1,703,393	1,586,601	1,520,280
Change in Temporarily Restricted Net Assets	50,979	239,937	259,420	59,612
Increase in Net Assets	29,856	200,347	333,875	143,969
Net assets, beginning of year	914,172	713,825	379,950	235,981
Net assets, end of year	\$ 944,028	\$ 914,172	\$ 713,825	\$ 379,950

Operation Samahan, Inc.
Balance Sheet

	As of March	As of June 30		
	2002 (Unaudited)	2001	2000	1999
ASSETS				
Current assets:				
Cash in Bank	\$ 89,399	\$ 68,704	\$ 437,857	\$ 128,032
Cash - Restricted	435,916	384,937	-	-
Contract Receivables	81,398	266,438	112,541	83,063
Other Receivables	49,349	13,214	3,100	3,742
Prepaid Expenses	10,739	11,433	4,577	3,877
Deposits	2,348	2,348	2,798	2,798
Inventory - Medical Supplies	-	-	-	5,388
Total current assets	669,149	747,074	560,873	226,900
Property and equipment, net	972,451	347,502	376,771	332,998
Total Assets	\$ 1,641,600	\$ 1,094,576	\$ 937,644	\$ 559,898
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 24,824	\$ 15,265	\$ 15,980	\$ 6,454
United Way Payable	329	-	168	607
Payroll Taxes Payable	30,727	-	-	-
Accrued Vacation	13,381	22,197	22,830	11,556
Settlement Payable	-	-	27,500	-
Mortgage Loan Payable, Current Portion	-	2,154	2,009	2,730
Total Current Liabilities	69,261	39,616	68,487	21,347
Mortgage Payable, Long Term Portion	628,312	140,788	155,332	158,600
Total liabilities	697,573	180,404	223,819	179,947
Net assets:				
Unrestricted	508,111	529,235	568,825	320,338
Temporarily Restricted	435,916	384,937	145,000	59,612
Total net assets	944,027	914,172	713,825	379,950
TOTAL LIABILITIES AND NET ASSETS	\$ 1,641,600	\$ 1,094,576	\$ 937,644	\$ 559,897

Financial Ratios:

Proforma (a)
FYE 2001

Debt Service Coverage (x)	3.31	13.97	19.85	9.10
Debt/Unrestricted Net Assets (x)	1.40	0.30	0.28	0.50
Margin (%)		11.38%	20.57%	9.37%
Current Ratio (x)		14.41	8.19	10.63

(a) Recalculates 2001 audited results to include the impact of this proposed financing. Also includes debt incurred subsequent to year-end.

Financial Discussion:

OS' financial status continues to improve, and features a strong demand for its services.

OS has reported positive net income over the past three fiscal years ranging from \$143,000 to \$333,000, with strong margins ranging from 9% to 20%. Year to date net income has dropped substantially due to the purchase of a new telecommunication system and the increase of employees' salaries. Since the employees were working at minimum wage, each employee received an average of a 15% pay increase. OS heavily relies on net assets released from restrictions. Grants and other contribution of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulation time restriction ends or the purpose of the restriction is accomplished then temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

OS has significant financial resources and solid liquidity.

OS has significant financial resources with over \$900,000 in net assets. Its liquidity is solid with a current ratio of 14.41x. A portion of OS cash is restricted for the clinic's other program services. Historically, OS has maintained minimal long-term debt. Subsequent to fiscal year 2001, OS incurred additional long-term debt of \$492,000 at 9% interest for a term of 20 year to purchase an office complex for administrative use, thus increasing OS' leverage. With the proposed financing, OS will increase leverage slightly, with debt to unrestricted net assets of 1.40x. Although OS will be moderately leveraged, it appears the additional debt can be managed, based on proforma debt service coverage, estimated at 3.31x. The proposed financing will result in only \$110,000 of additional debt, increasing debt service payments by approximately \$15,000 annually, as a result of the lower interest rate on the HELP II loan.

III. UTILIZATION STATISTICS:

<u>Type of Service</u>	Patient Visits			
	Nine Months Ended			
	<u>March 31</u>	<u>Fiscal Year Ending June 30</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Medi-Cal	7,337	9,846	9,924	9,715
Medi-Care	768	1,153	1,146	1,104
CMS	1,402	2,263	2,279	2,162
Private Insurance	263	173	57	47
Self-pay	5,625	7,651	7,665	7,063
Total Visits	<u>15,395</u>	<u>21,086</u>	<u>21,071</u>	<u>20,091</u>

IV. ORGANIZATION:

Background: In 1972, OS began under the roof of a barbershop. Its mission was to serve seniors in the Filipino community. In 1973, OS was incorporated as a non-profit 501 (c) (3) corporation. In 1974, it was funded under the Human Care Service Program in San Diego County. The Philippine Medical Association and the Philippine Nurses Association assisted in providing medial staff and volunteers to the clinic.

With increased public funding in 1974, OS expanded its services to cover general medical services, physical exams, obstetrics, pediatric services including immunization for children, gynecology, counseling, follow-up visit and other medical and social services. It moved to its current location on Highland Avenue. In 1977, it opened a satellite clinic in Mira Mesa.

Currently, OS offers preventive and primary health care services to children, youth, adults and seniors. OS has expanded its services to low income and disadvantaged family of diverse and racial and ethnic backgrounds.

In addition to health care program, OS offers services that includes assistance on obtaining social security benefits, medical coverage under MediCal, Medicare and County Medical Services, immigration consultation, legal advice, income tax returns, housing and job referrals.

Licenses: OS is licensed as a community clinic with the Department of Health Services.

Contracts: OS has contracts with state and county government agencies and various private health insurance companies.

Competition:

Health Facility Location	Clients' Visits	Market Share (%)	Estimated Distance Away
National City Family Health Clinic	6,600	20%	3 miles
Operation Samahan, Inc.	33,000	80%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/01	Estimated Amount Outstanding After Proposed Financing
Existing:			
Wells Fargo Bank, 1992 Note Payable, Maruca, 2002*	\$180,000	\$142,942	\$-0- 492,000**
Proposed:			
CHFFA HELP II Loan, 2002		N/A	250,000
TOTAL DEBT		\$142,942	\$742,000

* Private party note.

** Debt incurred subsequent to year-end.

VI. SECTION 15438.5 OF THE ACT:

This financing will result in annual debt payment savings of approximately \$8,400 per year (compared to a current interest rate of 8.65%) and will contribute to OS' long-term viability and provide additional services to clients with quality staff, equipment and vehicles.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$250,000 for a term not to exceed 10 years for the Operation Samahan, Inc., subject to a final appraised value on the National City property satisfactory to the Authority, receipt of grant from National City, and the standard HELP II loan provisions.